United Nations DP/2012/25

Executive Board of the United Nations Development Programme and of the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
10 July 2012

Original: English

**Second regular session 2012**
4-10 September 2012, New York
Item 11 of the provisional agenda
**Programming arrangements**

# Programming arrangements, 2014-2017

*Summary*

The programming arrangements in UNDP play an integral role in helping the organization to achieve development results. They fund critical resource facilities through which regular resources are allocated to implement Executive Board-approved programme documents, which reflect individual country needs within Strategic-Plan priorities. The first review of the programming arrangements (DP/2010/5) raised concerns with respect to increased flexibility and responsiveness on the part of UNDP to meet the demands of a dynamic spectrum of countries with diverse development challenges.

In response to decision 2010/3 on the first review, a second review was undertaken (DP/2012/3), where UNDP agreed that it was necessary to carefully and strategically consider programming arrangements in the context of its business model and three concurrent initiatives that inform and are integrally linked to it: the new strategic plan, the integrated budget, and the agenda for organizational change.

In decision 2012/1 on the second review, the Executive Board endorsed overarching assumptions with respect to predictability and progressivity in allocating TRAC-1 resources, and UNDP presence. Whilst UNDP has through numerous bilateral and regional consultations focused primarily on further elaboration of TRAC-1 eligibility options and allocation models, this paper elaborates on the following broad areas:

(a) Principles underlying UNDP's global strategic presence;
(b) Information pertaining to programming arrangements lines other than TRAC-1, TRAC-2 and TRAC-3;
(c) The establishment of a contingency fund and reporting thereon;
(d) The possible inclusion of UNCDF in the programming arrangements; and
(e) TRAC-1 eligibility options and TRAC-1 allocation models.

The proposed elements of a draft decision are also provided.

12-41789 (E) 190712

Please recycle

# Contents


| Chapter | | Page |
|---|---|---|
| I. | Background | 3 |
| II. | Additional information and proposals | 4 |
| III. | The way forward | 15 |
| Tables | | |
| 1. | Comparative summary of baseline, streamlined and HDI TRAC-1 allocation models | 12 |
| 2. | TRAC-1 allocation models within Executive Board-approved allocation ranges | 13 |
| Annex | | |
| 1. | Comparative analysis of TRAC-1 allocation models by TRAC-1 eligibility option | 16 |

# I. Background

**Strategic role and context**

1. The programming arrangements play an integral role in helping UNDP achieve development results through the allocation of regular programme resources in support of Executive Board-approved programme documents that reflect individual country needs in line with strategic-plan priorities. The first review of the programming arrangements (DP/2010/5) raised concerns with respect to increased flexibility and responsiveness on the part of UNDP to meet the demands of a dynamic spectrum of programme countries with diverse development challenges.

2. In response to decision 2010/3 on the first review of the programming arrangements, a second review was undertaken (DP/2012/3). UNDP underscored the need to carefully and strategically consider the programming arrangements in the context of three concurrent initiatives that inform and are integrally linked to it: the new strategic plan, the integrated budget, and the agenda for organizational change. The new strategic plan will set the strategic vision, substantive orientation and organizational priorities for the future, forming the basis for future programming activities. The integrated budget will increase budgetary transparency and integration of the programming arrangements and institutional budget, as well as harmonization and comparability with UNICEF and UNFPA. In so doing, it will incorporate in a single planning and budgetary framework the planning and resource-allocation considerations currently reflected in the separate frameworks of the programming arrangements and the institutional budget. The agenda for organizational change will re-energize UNDP to implement the remainder of the current strategic plan and embark on the new strategic plan. It will inform the range and types of services and delivery models that UNDP will need to adopt.

3. The second review of the programming arrangements focused on a number of key issues: global strategic presence; TRAC-1 eligibility options and TRAC-1 allocation models; establishment of a provision for a contingency fund; and further rationalization of the programming arrangements framework in line with the move to an integrated budget.

4. In responding to the second review, the Executive Board endorsed in decision 2012/1 three overarching assumptions. First, the new TRAC-1 calculation methodology should continue to include a predictability parameter to ensure a smooth transition from the current programming arrangements period (2008-2013) to the next (2014-2017). Second, a new TRAC-1 calculation methodology should continue to include the same percentage allocation ranges as in 2008-2013: low-income countries (LICs) would continue to receive between 85 and 91 percent, middle-income countries (MICs) between nine and 15 percent, and least developed countries (LDCs, which straddle both LICs and MICs) at least 60 percent. Third, UNDP's presence should be based on differentiated development needs of countries in order to ensure efficient and effective response to national development priorities.

5. Decision 2012/1 also requested UNDP to present a further elaboration of the areas discussed in the second review paper (DP/2012/3) at the second regular session in September 2012.

6. Pursuant to decision 2012/1, UNDP has focussed primarily on further elaboration of the three TRAC-1 eligibility options and four TRAC-1 allocation

models, and a subsequent narrowing of the choices therein. This was accomplished through numerous bilateral and regional consultations with Member States, and the preparation of two informal notes reflecting these consultations that were presented at informal meetings in April and May 2012.

**Principles and resource considerations**

7. The second review (DP/2012/3) highlighted three important and inter-related principles that underpin the mandate of UNDP: predictability, universality and progressivity. Predictability relates to the availability of sufficient regular resources, which form the bedrock of UNDP and are necessary to sustain its multilateral and universal character. Universality ensures that UNDP development resources and related activities are available to support all eligible countries. Progressivity focuses the distribution of regular programme resources to primarily low-income and least developed countries.

8. Predictability and availability of adequate regular resources, and flexibility in their allocation, are critical prerequisites for UNDP to be able to adequately respond to the dynamic needs of programme countries through strategic prioritization and deployment of sufficient resources to where they are needed the most. In this regard, all analyses undertaken thus far have been based on the $700 million annual programme level endorsed in Executive Board decision 2007/33 in order to ensure comparability and transparency. This annual programme level will need to be updated at a later stage in line with emerging estimates of voluntary contributions. For example, given current resource constraints, prudent internal resources planning dictates that the annual regular resource programme base of $700 million be reduced to $600 million for 2011 and to $570 million for 2012 and 2013. If the current situation is not reversed, the regular resource programme base could be subject to further reductions in 2014 and future years.

9. Accordingly, decision 2012/1 "reaffirmed the principles of eligibility of all recipient countries on the basis of the fundamental characteristics of the operational activities of the United Nations development system, and of the capacity to respond to the needs of all recipient countries in accordance with their own development priorities; and, in this context, recognized the principles of the United Nations Development Programme activities, which include progressivity, impartiality, transparency and predictability of flow of resources for all recipient countries, as reflected in decision 2007/33."

## II. Additional information and proposals

10. In response to decision 2012/3, the following five areas are specifically addressed:

(a) Principles underlying UNDP's global strategic presence;

(b) Relevant information, based on reviews and evaluations, pertaining to programming arrangements lines other than TRAC-1, TRAC-2 and TRAC-3;

(c) The establishment of a contingency fund to further improve the flexibility of UNDP responses to compelling, unforeseen programme country demands, high-priority emerging challenges and strategic opportunities for programmatic activities;

(d) Implications of the possible inclusion of UNCDF in the programming arrangements; and

(e) The TRAC-1 framework, covering TRAC-1 eligibility options and TRAC-1 allocation models.

## A. Global strategic presence: principles

11. In decision 2012/1, the Executive Board agreed with the over-arching assumption that UNDP presence should be based upon differentiated development needs of countries, rather than a one-size-fits-all approach, to ensure efficient and effective responses to national development priorities. It is important to note that UNDP presence is both derived from and critical to its dual mandate. As the lead development agency of the United Nations system, it supports development effectiveness and programme activities in its focus areas, and as the steward of the Resident Coordinator function, it supports United Nations development coordination activities.

12. UNDP is addressing the important issue of global strategic presence in the context of the new strategic plan, the integrated budget and the agenda for organizational change. This is underscored by the important relationship between UNDP's programmatic presence and the identification of service delivery models that can leverage flexible, effective and efficient models of physical presence across the four broad, harmonized cost classifications approved in decision 2010/32 ensuring the successful delivery of programmes funded by UNDP: Development covering programmes and development effectiveness; United Nations development coordination; management; and special purpose.

13. UNDP recognizes that longer-term sustainability of its service delivery model calls for improvements in organizational effectiveness and operational efficiency. Accordingly, UNDP is pro-actively assessing service delivery models through which it can achieve programmatic and physical presence in an effective, efficient and sustainable manner. TRAC-1 eligibility options and allocation models discussed in Section E below have a bearing on programmatic presence. Physical presence is a key segment of the agenda for organizational change and will be addressed in the context of the integrated budget from 2014 onwards, to be presented to the Executive Board at its second regular session in September 2013.

14. The following principles underpin UNDP's global strategic presence:

(a) Enhanced organizational responsiveness and flexibility is required to adequately meet the increasing demands placed on UNDP in view of its dual mandate as a United Nations development agency and steward of the United Nations Resident Coordination function;

(b) A differentiated approach to physical presence is required to ensure that optimal configurations of UNDP services in support of programme country objectives are readily available;

(c) A differentiated approach to strategic planning, management, retention, and deployment of human resources is required to mirror organizational requirements needed to meet diverse development needs across a wide range of programme countries;

(d) A viable mix of predictable regular and other resources is required due to the critical and mutually reinforcing roles they perform in funding UNDP's global strategic presence, noting the unique role of regular resources as highlighted in paragraph 8.

## B. Non-TRAC programme lines: reviews and evaluations

15. In decision 2012/1 the Executive Board requested relevant information on the allocation to non-TRAC programme lines (programming arrangements lines other than TRAC-1, TRAC-2 and TRAC-3). These lines are subject to periodic reviews and evaluations. Independent evaluations are conducted by the Evaluation Office per a programme of work that is responsive to and endorsed by the Executive Board in specific areas for which information on performance, lessons learned and recommendations for improvement has been requested. In this regard, decision 2011/16 endorsed the proposed 2012 programme of work contained in the 2011 annual report on Evaluation (DP/2011/24), with an emphasis on the planned evaluation of the effectiveness of the strategic plan.

16. The 2012 programme of work of the Evaluation Office includes evaluations of all regional programmes, the Global Programme, and the south-south cooperation programme. These evaluations will be presented to the Executive Board during 2013. An evaluation of gender mainstreaming is planned for 2013. No other evaluations are currently planned in 2012 or 2013 with respect to other non-TRAC programming lines.

## C. Establishment of a contingency fund

17. The regular programme resource allocations to programme countries are made within the framework of targets for resource assignments from the core[1] (TRACs). The TRAC is a three-tiered system in which TRAC-1 and TRAC-2 are closely linked in a combined pool of TRAC-1/TRAC-2 resources, with TRAC-3 resources being made available through a separate pool. TRAC-1 resources are made available through a central allocation in line with TRAC-1 eligibility and allocation criteria approved by the Executive Board. TRAC-2 resource allocations are demand-driven and focus on strengthening national capacities to achieve the Millennium Development Goals. From a substantive perspective, TRAC-2 resources are considered fully fungible with TRAC-1 resources.

18. UNDP proposes to strengthen the responsiveness of the TRAC system by establishing a contingency fund. This fund will further improve the ability of UNDP to respond to compelling, unforeseen programme country demands, high-priority emerging challenges and strategic opportunities for programmatic activities.

19. The contingency fund will represent a "set-aside" pool of TRAC resources dedicated to cases where the components of the current TRAC system do not readily facilitate and expedite responses to compelling, unforeseen programme country demands, high-priority emerging challenges and strategic opportunities for programmatic activities. This is in contrast to TRAC-1/TRAC-2 resources which are allocated to countries based on approved, multi-year country programme documents,

[1] The term 'core' as used in this context refers to regular resources.

and TRAC-3 resources which are allocated to respond quickly and flexibly to development needs of countries affected by conflicts and natural disasters.

20. Contingency fund allocations would be released as required in response to unforeseen programme country demands and opportunities, and would not be pre-assigned for the entire four-year programming period. Allocations from the fund will benefit country-level programmes. Furthermore, to ensure full transparency on these funds, UNDP will report on the contingency fund as part of its formal annual reporting on performance.

## D. Possible inclusion of UNCDF in programming arrangements

21. In decision 2007/34, the Executive Board exceptionally requested UNDP to provide UNCDF with a one-time contribution of $6 million for 2008 programming activities, and to increase efforts to work with UNCDF by supporting joint programmes with them at country, regional and global levels.

22. Subsequently, in decision 2010/3, the Executive Board requested UNDP to submit proposals within the context of the programming arrangements for the establishment of a specific allocation to directly support UNCDF programme activities. Most recently, in decision 2012/1, the Executive Board decided to consider the possible inclusion of UNCDF in the programming arrangements, taking into consideration the priorities of the strategic plan, 2014-2017, and additional information provided on the financial and legal implications of the proposed inclusion.

23. The UNCDF business model combines capital investments, technical assistance and advocacy. Capital investments are at the centre of UNCDF's interventions and are made available in the form of grants, loans and guarantees. These investments are complemented by strong capacity building and upstream policy advisory services to support the design and implementation of national policies and action plans in both local development finance and inclusive finance.

24. A new fixed line dedicated to UNCDF programme activities would further strengthen the strategic UNDP-UNCDF partnership and the complementarity between the two organizations. It would also improve the integration of local development finance and inclusive finance activities into United Nations common country programming, thus facilitating joint programming modalities.

25. There is precedent for UNDP support from regular resources to UNCDF institutional and programmatic activities, thus precluding any legal implications. The financial implications of a new programming line will be addressed in the integrated budget for 2014 and future years, to be presented to the Executive Board at its second regular session in 2013.

## E. TRAC-1 framework

26. TRAC-1 refers to the annual level of regular programme resources targeted to be available for an individual programme country during the programming arrangements period. They are allocated centrally in line with TRAC-1 eligibility and allocation criteria approved by the Executive Board.

**TRAC-1 eligibility options**

27. TRAC-1 eligibility criteria determine the point at which, after crossing a predetermined threshold level, programme countries graduate to net contributor country (NCC) status and thus are no longer eligible to receive TRAC-1 resources. In DP/2012/3, three options were presented as summarized below:

(a) Existing GNI income-based eligibility, where countries with 2009 GNI per capita below $6,500 are eligible to receive TRAC-1 resources;

(b) Hybrid GNI income-based eligibility, where countries with 2009 GNI per capita below $12,195 are eligible to receive TRAC-1 resources; and

(c) Human Development Index (HDI)-based eligibility, where countries with 2010 HDI below "very high" are eligible to receive TRAC-1 resources.

28. In discussions during the first regular session in February 2012, and subsequent informal consultations, a general consensus has emerged around the non-practical nature of the Human Development Index (HDI)-based TRAC-1 eligibility option. This is because the quartile approach includes primarily developed countries in the 'very high' HDI quartile, which is the default for NCC designation. Hence, the remainder of this document focuses on the Existing GNI income-based and Hybrid GNI income-based eligibility options based on a consultative process.

29. To balance concerns with respect to smooth transitions of countries between and within the LIC, MIC and NCC categories from the present (2008-2013) programming arrangements framework period to the next (2014-2017), and the need for the TRAC-1 framework to be responsive to changes in GNI income levels, in particular with regard to graduation to the NCC category, UNDP proposes to introduce a package with respect to the Existing GNI income-based and Hybrid GNI income-based eligibility options, consisting of the following two components:

(a) Mitigation of country-level shifts in GNI per capita from one programming arrangements period to the next, through the introduction of a multi-year averaging approach in lieu of a single base-year period. This would replace the single-year GNI per capita applicable in the existing GNI income-based and hybrid GNI income-based eligibility options with an average GNI per capita covering multiple years. The multi-year averaging approach should moderate single-year anomalies in GNI per capita. A three-year averaging approach was informally discussed with and generally accepted by Executive Board members[2]. The three-year averaging approach is reflected in this document, but based on GNI per capita data for the years 2009 and 2010 since 2011 GNI per capita is not yet available.

(b) Implementation of a system of biennial updates to better respond to emerging changes. For the period 2014-2015, based on a three-year averaging approach, the three-year average GNI per capita for the years 2009-2011 will be used. For 2016-2017, the three-year average GNI per capita for the years 2011-2013 will be used. This should improve responsiveness to GNI per-capita fluctuations. This system is described in more detail in paragraphs 55-56.

30. The Executive Board has expressed broad agreement in the consultative process with respect to the introduction of this package consisting of a multi-year

[2] It is noted that some Executive Board members preferred the use of a four-year averaging approach.

averaging approach with regard to GNI per capita in lieu of a single base-year period, coupled with a system of biennial updates.

**TRAC-1 allocation models**

31. TRAC-1 allocation criteria determine the amount of TRAC-1 resources assigned to eligible programme countries. These criteria will apply to all countries deemed eligible to receive TRAC-1 resources based on the two eligibility options described above. The four alternative TRAC-1 allocation models presented in DP/2012/3 are summarized below.

*Baseline model*

32. The baseline model preserves the status quo, using GNI per capita (Atlas methodology) and population data throughout the programming arrangements period. It also continues to apply the current weighting system for GNI and population discussed in more detail in paragraphs 40 and 41 below.

*Streamlined model*

33. The streamlined model is similar to the baseline model in that it applies GNI per capita in World Bank Atlas terms and population throughout the programming arrangements period. In addition, it introduces several technical improvements, including the replacement of the legacy weighting system currently in use for GNI and population with simple mathematical formulas similar to those used by UNICEF and the World Health Organization.

34. The streamlined model is considered technically sound and aligned with the current calculation methodology. However, it does not address the fundamental challenge of improving the basic criteria to better reflect the multidimensional aspects of poverty.

*Human Development Index (HDI) model*

35. A cornerstone of the human development paradigm is the acknowledgment that poverty is a multidimensional challenge, of which poverty measured in income terms is but one. The Human Development Report has consistently emphasized the need to shift from using income and economic growth as the sole and final measures of well-being. Therefore, while the HDI approach considers both income and growth as important means of achieving progress, it also factors in two other dimensions essential to an individual's well-being: education and health.

36. The HDI model addresses the fundamental challenge of improving the basic criteria to better reflect the multidimensional nature of poverty. In so doing, it uses HDI values for a base year to cover the entire period of the programming arrangements. The HDI model is derived from the HDI data as published in the 2011 Human Development Report and the same population data as used in the baseline and streamlined models. The HDI model also introduces the same simple mathematical formulas used in the streamlined model.

37. While there are still a few issues regarding the availability of data for the HDI, they have been addressed in a satisfactory and transparent manner in the analysis in this document in consultation with the Human Development Report Office through the use of alternative data sources, and the calculation of estimated HDI values using regression techniques.

*Purchasing Power Parity (PPP) model*

38. In the PPP model, the GNI per capita parameter is replaced by GNI per capita stated in PPP terms. This was proposed in part to address the concern that single base-year GNI per capita data could be susceptible to abrupt fluctuations and thus disproportionally affect country transitions and graduations. The application of the three-year averaging approach for GNI per capita to the baseline and streamlined models addresses this concern. In addition, the GNI per capita parameter in PPP terms is embedded in the HDI model, where the three-year averaging approach does not apply. Therefore this document does not further elaborate the PPP model.

**Common elements of TRAC-1 allocation models**

39. Perspectives on income (GNI per capita), population, TRAC-1 minimum allocations and predictability parameters are common to all TRAC-1 allocation models. These four perspectives are addressed in more detail below.

*GNI per capita*

40. Since the adoption of the successor programming arrangements in 1995, gross national income (GNI) per capita using the World Bank Atlas methodology has been a key parameter in the TRAC-1 allocation methodology. It continues as such in the baseline, streamlined and HDI TRAC-1 allocation models as summarized below.

(a) The baseline model uses a system of fixed thresholds and weights assigned to GNI per capita that have remained constant since 1995. These weights are calculated such that higher GNI per capita levels result in lower weights. Therefore, as GNI per capita increases, the corresponding weights are reduced until the highest threshold is reached where the weight remains constant thereafter, regardless of the level of GNI per capita.

(b) The streamlined model represents a continuation of the baseline model in the use of GNI per capita in World Bank Atlas terms. But it is an improvement over the baseline model because it replaces the legacy GNI per-capita fixed threshold and weighting system with a simple mathematical formula. As a result, and in contrast to the baseline model, there is smoother progression in weights assigned to GNI per capita. This leads to improved progressivity with respect to GNI per capita.

(c) The HDI model incorporates GNI per capita income (PPP terms), with two other dimensions essential in measuring human development: education and health.

*Population*

41. Similar to GNI per capita, population has been a key parameter in the programming arrangements since 1995. The analysis in this section uses 2010 World Bank population data.

(a) The baseline model uses a system of fixed thresholds and weights assigned to population that have remained constant since 1995. These weights are calculated such that higher population levels result in higher population weights. Therefore, as population grows, the corresponding population weight grows at a decreasing rate, until the highest threshold is reached where the weight remains constant thereafter, regardless of the population size.

(b) The streamlined model represents a continuation of the baseline model in the use of population data. But it is an improvement over the baseline model because it replaces the legacy population fixed threshold and weighting system with a simple mathematical formula. As a result, and in contrast to the baseline model, there is smoother progression in weights assigned to population.

(c) The HDI model uses the same, simple, mathematical formula for population as the streamlined model.

*TRAC-1 minimum allocation*

42. The TRAC-1 minimum allocation, introduced in the 2004-2007 programming arrangements, assumes that each eligible programme country requires a minimum amount of TRAC-1 resources to support priority UNDP development activities. Without such minimum amounts, UNDP would face difficulties in providing high-priority advisory services at the right time, supporting new initiatives for policy formulation and capacity development, and assisting governments in leveraging additional other resources to achieve development goals.

43. The TRAC-1 minimum allocation retained during 2008-2013 was at the same level of $350,000 as for 2004-2007. In this analysis, the same TRAC-1 minimum allocation level is applied to countries with GNI per capita below $6,550, the current notional eligibility threshold under the existing GNI income-based eligibility option. However, a $150,000 TRAC-1 allocation will be applied for middle-income countries with GNI per capita above the $6,550 threshold in the streamlined and HDI models under the hybrid GNI income-based eligibility option. Furthermore, a $50,000 TRAC-1 minimum allocation will be applied for programme countries without UNDP Country Office presence[3].

*Predictability parameters*

44. Decision 2012/1 endorsed the assumption that the new programming arrangements should continue to include a predictability parameter to ensure a smooth transition from the current (2008-2013) programming arrangements to the next (2014-2017). Accordingly, indicative predictability parameters are proposed that emphasize the smoothest level of transition for least developed countries through the allocation of a minimum range of 70-80 percent of the prior period TRAC-1. This is followed by the allocation of a minimum range of 55-65 percent of the prior period TRAC-1 for low-income countries. The same, 55-65 percent minimum range of prior period TRAC-1 allocation, is applied to assure a level of resources for those low-income countries that are transitioning to middle-income country status in 2014-2017. This ensures a similar level of protection in 2014-2017 to all countries that at present (2008-2013) have low-income country status. Finally, the allocation of a minimum range of 35-45 percent of the prior period TRAC-1 would be applicable to middle-income countries, with the understanding that eligible programme countries with GNI per capita above the $6,550 threshold would only receive the $150,000 TRAC-1 allocation discussed in paragraph 43 above.

[3] *This includes small island developing states with programmes administered by adjacent UNDP Country Offices.*

**Analysis of TRAC-1 allocation models**

45. A comparative analysis of the present 2008-2013 TRAC-1 allocation model and proposed baseline, streamlined, and HDI TRAC-1 allocation models for 2014-2017 was conducted based on the following assumptions:

(a) The three-year averaging approach has been applied to the GNI per capita parameter embedded in the baseline and streamlined models. It has not been applied to the HDI model as the HDI represents a composite index comprising not only income but also health and education measures. Since 2011 GNI per capita data will become available in August 2012, the present analysis only includes GNI per capita data for the years 2009 and 2010, and therefore is provisional and subject to change.

(b) Simulations were run using a $700 million annual regular resources funded programming base to which the current legislative earmarking for TRAC-1 was applied, resulting in approximately $250 million in available TRAC-1 resources. This annual level will need to be updated at a later stage in line with emerging voluntary contribution estimates.

(c) Initial simulation of the streamlined model under the Hybrid GNI income-based eligibility option yielded an allocation to LICs below the range of 85-91 percent endorsed by the Executive Board. To remain within this range, further adjustment of the GNI per capita weighting was required for the streamlined model under the hybrid GNI income-based eligibility option (scenario 5 in Table 1 below).

46. The 12 scenarios introduced in DP/2012/3 have been narrowed to the six scenarios presented in Table 1 below. This was accomplished by excluding the HDI based eligibility option and the PPP allocation model. Nevertheless, all 12 scenarios have been updated and are included in Annex 1 for reference. Scenarios 1, 2 and 3 represent the baseline, streamlined and HDI TRAC-1 allocation models under the existing GNI income-based eligibility option. Scenarios 4, 5 and 6 represent the baseline, streamlined and HDI TRAC-1 allocation models under the hybrid GNI income-based eligibility option.

**Table 1. Comparative summary of baseline, streamlined and HDI TRAC-1 allocation models**

| | 2008-2013 TRAC | Eligibility: Existing GNI income-based | | | Eligibility: Hybrid GNI income-based | | |
|---|---|---|---|---|---|---|---|
| | | Scenario 1 Baseline | Scenario 2 Streamlined | Scenario 3 HDI | Scenario 4 Baseline | Scenario 5 Streamlined (*) | Scenario 6 HDI (*) |
| LIC | 87.2% | 85.6% | 85.4% | 79.3% | 83.6% | 87.2% | 78.6% |
| MIC | 12.8% | 14.4% | 14.6% | 20.7% | 16.4% | 12.8% | 21.4% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| LDC | 64.1% | 69.6% | 71.9% | 67.4% | 67.7% | 73.4% | 66.7% |
| Non-LDC | 35.9% | 30.4% | 28.1% | 32.6% | 32.3% | 26.6% | 33.3% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

(*) Countries with GNI per capita of $6,550 or below are assigned a minimum TRAC-1 of $350,000. Countries with GNI per capita between $6,550 and $12,275 are assigned a pre-determined TRAC-1 allocation of $150,000.

*Analysis of scenarios in comparison to Executive Board-approved allocation ranges*

47. Decision 2012/1 approved the over-arching assumption that a new TRAC-1 calculation methodology should continue to include the same percentage allocation ranges as in the present (2008-2013) programming arrangements: low-income countries would continue to receive between 85 and 91 percent, middle-income countries between nine and 15 percent, and at least 60 per cent for least developed countries, which straddle both LICs and MICs. Three of the six scenarios presented in Table 1 fall below the 85-91 percent allocation range for low-income countries (scenarios 3, 4 and 6). Further analysis is therefore focused on the remaining scenarios presented in Table 2 below.

**Table 2. TRAC-1 allocation models within Executive Board-approved allocation ranges**

| | 2008-2013 TRAC | Eligibility: Existing GNI income-based | | Eligibility: Hybrid GNI income-based |
|---|---|---|---|---|
| | | Scenario 1 Baseline | Scenario 2 Streamlined | Scenario 5 Streamlined (*) |
| LIC | 87.2% | 85.6% | 85.4% | 87.2% |
| MIC | 12.8% | 14.4% | 14.6% | 12.8% |
| Total | 100% | 100% | 100% | 100% |
| | | | | |
| LDC | 64.1% | 69.6% | 71.9% | 73.4% |
| Non-LDC | 35.9% | 30.4% | 28.1% | 26.6% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

(*) Countries with GNI per capita of $6,550 or below are assigned a minimum TRAC-1 of $350,000. Countries with GNI per capita between $6,550 and $12,275 are assigned a pre-determined TRAC-1 allocation of $150,000.

*Scenarios 1 (baseline) and 2 (streamlined) under the existing GNI Income-based eligibility option*

48. Scenario 1(baseline model) uses the same basic parameters for income (GNI per capita weights), population (population weights), TRAC-1 minimum allocation, and predictability as the 2008-2013 TRAC-1 allocation model. Under scenario 1, 85.6 percent is allocated to LICs and 69.6 percent to LDCs.

49. Scenario 2 (streamlined model) applies simple, continuous mathematical weighting formulas similar to those used by UNICEF and the World Health Organization for income and population. The streamlined model uses indicative predictability parameters as discussed in paragraph 44 above. Under scenario 2, 85.4 percent is allocated to LICs and 71.9 percent to LDCs.

*Scenarios 5 (streamlined) under the hybrid GNI income-based eligibility option*

50. Scenario 5 (streamlined model) applies simple, continuous mathematical weighting formulas similar to those used by UNICEF and the World Health Organization for income and population. The streamlined model uses indicative

predictability parameters as discussed in paragraph 44 above. Under scenario 5, 87.2 percent is allocated to LICs and 73.4 percent to LDCs.

*Comparative analyses: 2008-2013 TRAC-1 allocation with baseline models; baseline with streamlined models*

51. In comparing the 2008-2013 TRAC-1 allocation with the baseline model under the existing GNI income-based TRAC-1 eligibility options (scenario 1), there is a relative decrease in the allocation to LICs from 87.2 percent (2008-2013 TRAC-1) to 85.6 percent (Scenario 1). Nevertheless, this is within the EB-approved LIC TRAC-1 allocation range of 85-91 percent. As the baseline model uses the same basic income, population, TRAC-1 minimum allocation and predictability parameters as the 2008-2013 TRAC-1 allocation model, this change is attributed to country-level movements in GNI per capita and population between the year 2005 (base year in use for the 2008-2013 programming arrangements) and the years 2009-2010.

52. In comparing the baseline model (scenario 1) with the streamlined model (scenario 2) under the existing GNI income-based eligibility option, there is a relative decrease in the allocation to LICs from 85.6 percent in the baseline model to 85.4 percent in the streamlined model. This is also within the Executive Board-approved LIC TRAC-1 allocation range of 85-91 percent.

53. Following further modification to the streamlined model (scenario 5) under the hybrid GNI income-based eligibility option as discussed in paragraph 45 above, in comparing the baseline model (scenario 1) with the streamlined model (scenario 5), there is a relative increase in the share of resources allocated to LICs from 85.6 percent in the baseline model (scenario 1) to 87.2 percent in the streamlined model (scenario 5).

54. In all scenarios presented in Table 2 the allocation of TRAC-1 resources to LICs falls within the range of 85-91 percent approved by the Executive Board. Nevertheless, as the allocation to LICs in scenarios 1 and 2 is closest to 85 percent, there is a greater risk that adoption of the models, in conjunction with new (2011) GNI per capita and population data available in August 2012, would result in TRAC-1 allocation levels below the Executive Board-agreed LIC TRAC-1 allocation share of 85 percent, under scenarios 1 and 2 than under scenario 5.

**Implication of biennial updates**

55. The proposed system of biennial updates, which is one of two components of the package outlined in paragraph 29 above – a three-year averaging approach with regard to GNI per capita coupled with a system of biennial updates – would be applicable at the mid-point of the four-year programming arrangements period. Only two groups of countries would be affected:

(a) Middle-income countries (during 2014-2015) that cross the NCC threshold at the biennial update will be considered transitional NCCs during 2016-2017 but will not have their TRAC-1 allocation adjusted; if they remain above the NCC threshold in 2018, they would be considered NCCs and be ineligible for TRAC-1 resources from 2018 onwards;

(b) Transitional NCCs (during 2014-2015) will become full NCCs during 2016-2017 if they remain above the NCC threshold at the biennial update; as such they will no longer receive TRAC-1 resources during 2016-2017.

56. For countries in all other categories both TRAC-1 eligibility and TRAC-1 allocation levels will remain unchanged during the four-year programming arrangements period.

## III. The way forward

57. Based on guidance provided by the Executive Board, the proposed elements of a draft decision are presented below:

(a) Takes note of the present report (DP/2012/25) and the additional information provided by UNDP therein;

(b) Endorses the principles on global strategic presence discussed in paragraphs 11-14;

(c) Underscores the importance of establishing a contingency fund to improve the ability of UNDP to respond to compelling, unforeseen programme country demands, high-priority emerging challenges and strategic opportunities for programmatic activities, and, in principle, agrees to the establishment of such a fund;

(d) Takes note of the rationale for considering the possible inclusion of the United Nations Capital Development Fund in the programming arrangements discussed in paragraphs 21-25; and

(e) Takes note of the analysis on the TRAC-1 Framework discussed in chapter E contained in this document, and, in this regard:

(i) Endorses the three-year averaging approach for GNI per capita in combination with a system of biennial updates as discussed in paragraphs 29 and 55-56; and

(ii) Decides to adopt the hybrid GNI-income based eligibility option in combination with the streamlined TRAC-1 allocation model for the 2014-2017 TRAC-1 allocation framework.

# Annex

## Comparative analysis of TRAC-1 allocation models by TRAC-1 eligibility option[4]

| | **Option 1** TRAC-1 Eligibility Criteria: Existing GNI Income-Based | | | | **Option 2** TRAC-1 Eligibility Criteria: Hybrid GNI Income-Based | | | | **Option 3** TRAC-1 Eligibility Criteria: HDI-Based | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income Category | Model 1: **Baseline** | Model 2: **Streamlined** | Model 3: **PPP** | Model 4: **HDI** | Model 1: **Baseline** | Model 2: **Streamlined** | Model 3: **PPP** | Model 4: **HDI** | Model 1: **Baseline** | Model 2: **Streamlined** | Model 3: **PPP** | Model 4: **HDI** |
| LIC | 85.6% | 85.4% | 80.7% | 79.3% | 83.6% | 87.2% | 79.9% | 78.6% | 83.0% | 86.9% | 79.7% | 78.4% |
| MIC | 14.4% | 14.6% | 19.3% | 20.7% | 16.4% | 12.8% | 20.1% | 21.4% | 17.0% | 13.1% | 20.3% | 21.6% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| LDC Status | | | | | | | | | | | | |
| LDC | 69.6% | 71.9% | 65.6% | 67.4% | 67.7% | 73.4% | 65.0% | 66.7% | 67.3% | 73.1% | 64.8% | 66.5% |
| non-LDC | 30.4% | 28.1% | 34.4% | 32.6% | 32.3% | 26.6% | 35.0% | 33.3% | 32.7% | 26.9% | 35.2% | 33.5% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

[4] Prepared based on assumptions outlined in paragraph 45.